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SUBJECT: EU-EGYPTIAN TRADE REGIME COULD CREATE HURDLES FOR
US EXPORTS

REF: A. 2006 CAIRO 6894

[1](#)B. 2005 CAIRO 8937

Sensitive but unclassified, not for internet distribution.

[1](#)1. (SBU) SUMMARY: Trade between Egypt and the European Union has increased dramatically during the last three years, thanks in part to lower trade barriers under Egypt's Association Agreement with the EU. However, US-Egyptian trade has also expanded during that time and continues to grow robustly. While Egyptian economic growth spurred by the increased trade will make Egypt a more lucrative market for US and EU exporters, US export growth could be constrained if Egypt moves under the association agreement to adopt standards more favorable to European products than US products. END SUMMARY.

Trade expanding with EU and US

[1](#)2. (U) Egypt signed an Association Agreement with the European Union in 2001. The trade provisions of the agreement entered into force Jan. 1, 2004, continuing duty-free access to the EU for Egyptian industrial exports and easing some restrictions on Egyptian agricultural products that compete with EU products. The agreement offered EU exporters only gradually improved access to the Egyptian market. For example, tariffs on semi-finished goods will expire in 2014, while tariffs on European cars will remain in effect until 2019.

[1](#)3. (U) During the last three years, EU-Egyptian trade expanded by 63 percent from EUR 10 billion in 2003 to EUR 16.3 billion in 2006, according to EU figures. US-Egyptian trade grew 71 percent during the same period from USD 3.8 billion to USD 6.5 billion (ref A).

[1](#)4. (U) The value of Egyptian exports to both the US and EU increased faster than Egyptian imports during that period, as Egypt narrowed its trade deficit. Agricultural products accounted for the largest share of the increase in Egyptian exports to the EU, growing at 80 percent, while oil exports rose 57 percent and industrial exports 42 percent, according to a study by the Egyptian Ministry of Trade and Industry gauging the effects of the association agreement. Even so, agricultural products still accounted for only 6 percent of overall Egyptian exports to the EU, compared to 57 percent for oil and gas.

[1](#)5. (U) European exports to Egypt in 2004 (the most recent

compilation available) comprised 21 percent for power-generating equipment, 16 percent for chemicals, 16 percent for transportation equipment, and 10 percent for food and agricultural products, according to a Ministry of Trade and Industry official. In contrast, 22 percent of US exports to Egypt were in agricultural products, while machinery accounted for 39 percent and manufactured articles 12 percent.

¶6. (U) Under the association agreement and the EU-Egypt Neighborhood Policy Action Plan, which the EU and Egypt adopted in March, the parties have begun to negotiate further liberalization of trade in agricultural products. Even if successful, however, the negotiations will not significantly disadvantage U.S. agricultural products in Egypt. US bulk commodity exports including corn and soybeans constitute 85 percent of US agricultural exports to Egypt and already enjoy duty-free access. However, the GOE does assess duties such as a 20-percent tariff on apples for products deemed as luxuries, an important growth market for U.S. exporters, and trade preferences for such European products would make US products less competitive.

EU Standards Could Disadvantage US Exports

¶7. (SBU) A larger concern for US exporters is that Egypt will increasingly adopt European standards for its internal market. The Action Plan calls for a reduction in non-tariff trade barriers and harmonization of standards between the EU and Egypt, including "progress on regulatory convergence, adoption of EU technical norms and standards." Several Egyptian importers and representatives of US exporters have warned that could give EU exporters a crucial advantage in the Egyptian market. In fact, Egyptian importers of kitchen

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appliances have cautioned FCS that Egyptian regulations now under development would bar US products from the Egyptian market.

¶8. (SBU) However, Barbara Stacher, an EU trade official based in Cairo, told Econoff that the EU's initial goals of harmonization of standards are modest -- limited to a few categories such as electrical appliances and medical equipment -- and are constrained by a limited technical capacity in the GOE and divergence in standards among EU members themselves. She said the GOE has used sliding standards to protect domestic manufacturers -- for instance, refusing US cutlery exports because they did not conform to standards based on an EU model, while refusing EU cutlery imports because they did not conform to US-based standards.

¶9. (SBU) Wael Hamid, an MFA official responsible for implementing the EU agreement, said various Egyptian agencies have partnered with EU members for technical assistance, such as the postal service with France, maritime safety with Sweden, and tourism with Austria. The EU is also providing EUR 46 million in grants under a Trade Enhancement Program to increase the GOE's technical capacity for trade facilitation. (USAID also supports an extensive number of programs to promote customs and trade reform in Egypt, ref B.)

¶10. (SBU) Comment: Strengthened EU-Egyptian trade relations will help improve the business climate in Egypt and promote Egyptian economic development, benefiting the US and Egypt's other trading partners. But Egyptian adoption of European standards could limit the access of US products to this growing market in coming years. Post intends to convene a working group chaired by FCS and including private-sector representatives to monitor the development of Egyptian standards and ensure that US exports remain competitive.
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